

February 23, 2000

To the United States Commissioner
International Boundary and Water Commission, United States and Mexico, United States Section:

Under generally accepted auditing standards, auditors are encouraged to report on “significant deficiencies in the design or the operation of the internal control structure that, in the auditor’s judgement, could adversely affect the organization’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.” In addition, auditors are encouraged to report, in a separate management letter, less material issues.

In performing an audit of the Balance Sheet of the International Boundary and Water Commission, United States and Mexico, United States Section (USIBWC) as of September 30, 1999, we considered USIBWC’s internal controls, in determining the nature, timing, and extent of the audit tests applied in connection with our audit. Additionally, for those significant internal control policies and procedures that were properly designed and placed in operation, we performed sufficient tests to justify a low assessed level of control risk consistent with Statement on Auditing Standards No. 55, promulgated by the American Institute of Certified Public Accountants. Our consideration of the internal controls did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the internal controls to prevent or detect all errors and irregularities.

USIBWC’s management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control policies and procedures.

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation

of financial statements.

Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that it may become inadequate because of changes in conditions or deterioration in its operating effectiveness.

Although the purpose of our consideration of the internal controls was not to provide assurances thereon, matters came to our attention that we want to report to you. These matters are discussed in the attachment. These matters do not affect our report dated February 23, 2000, on USIBWC's Balance Sheet referred to above.

This report is intended solely for the use of USIBWC's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Very truly yours,

Attachment: As Stated

International Boundary and Water Commission
Audit of Balance Sheet
September 30, 1999

Observations and Conclusions

Standard General Ledger

USIBWC's management has not fully implemented the U.S. Standard General Ledger.

We recommend that USIBWC's management fully implement the U.S. Standard General Ledger.

Internal Audit

Although a schedule of planned audits to be performed during FY 1998 was developed, none of these audits were performed. Furthermore, a schedule of planned audits was not developed for FY 1999.

We recommend that USIBWC's management implement controls as necessary to ensure audit schedules are properly developed and executed.

OMB Circular A-50

Although USIBWC may not be subject to OMB Circular A-50, *Audit Follow-Up*, the principles articulated therein are fundamental to effective internal control as they pertain to audits. We noted the following weaknesses that do not comport with the intent of OMB Circular A-50:

- C an evaluation was not or never has been conducted to determine whether the audit follow-up system results in efficient, prompt resolution of audit recommendations;
- C periodic analyses have not been performed on audit recommendations in order to determine trends and systemwide problems; and
- C performance appraisals of the appropriate officials do not address their effectiveness in resolving and implementing audit recommendations.

We recommend that USIBWC's management implement such controls as necessary to ensure that the intent of OMB A-50 is being met.

Advances

Not only are advance amounts drawn down by the Financial Services Division without written authorization from the project manager on a consistent basis, but advances are not adequately monitored. The lack of monitoring has resulted in funds not being drawn down in order to cover expenditures, funds being drawn down in excess of needs to cover the next quarter expenditures, and funds not being returned after a project is complete.

We recommend that USIBWC's management develop and implement policies and procedures that will require written authorization prior to the drawing of advance funds and the monitoring of the funds advanced.

Property and Equipment

The following weaknesses were disclosed in the area of property and equipment:

- C The reconciliation between the property and financial records is not performed on a timely basis after year end;
- C Not all property and equipment at headquarters is tagged;
- C A physical inventory is not taken at headquarters on an annual basis nor is the inventory taken at the field offices performed by independent staff (headquarters) on a periodic basis;
- C Receiving reports are not being submitted to the property officer from all locations on a consistent basis. As a result, the property officer and Financial Services Division must research all purchases posted to equipment expense and/or related expense accounts over \$5,000 at year end to determine if any purchases have been inappropriately expensed;
- C Not all personal property (e.g., computer related equipment and software) is tracked by the property officer, which increases the risk that property purchases will not be picked up as a capital asset;
- C Written policies do not exist regarding differentiating between capitalizable additions,

freight, installation costs, replacement, and maintenance; and

- C Periodic reviews are not made of the estimated lives of assets nor the depreciable life of each asset category.

We recommend that USIBWC's management implement the necessary procedures to correct these weaknesses related to property and equipment.

Cash Receipts

Cash receipts were not deposited within a reasonable period of time. Although USIBWC's policy only states that cash receipts should be deposited as soon as practical, our testing disclosed that several large dollar checks (ranging between \$100,000 and \$840,000) were held for 8 days before being deposited.

We recommend that USIBWC's management ensure the timely deposit of cash receipts.

Procurement

Purchasing procedures are not documented in a policy manual.

We recommend that USIBWC's management develop written policies and procedures related to procurement.

Performance Measures

An approach to measure performance for the performance measures has not been developed.

We recommend that USIBWC's management develop and implement procedures to measure performance for its performance measures.

Electronic Data Processing (EDP)

Independent reviews of the EDP controls are not performed on a periodic basis.

We recommend that USIBWC's management have independent reviews of the EDP controls conducted on a periodic basis.

Communication with the Financial Services Division

We noted insufficient procedures and a lack of timely communication at year end between the divisions responsible for USIBWC billings not processed by the Financial Services Division, as well as the division most knowledgeable of amounts owed under contracts and the Financial Services Division. As a result, the amounts recorded in the Balance Sheet for accounts payable and accounts receivable were understated.

We recommend that USIBWC's management implement the procedures necessary to ensure timely communication, especially at year end, between the Financial Services Division and other divisions of the USIBWC to ensure the accurate reporting of accounts payable and accounts receivable in the Balance Sheet.